

CHEMICAL & MINING CO OF CHILE INC
Form 6-K
February 28, 2019

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 6-K

REPORT OF FOREIGN PRIVATE ISSUER PURSUANT TO RULE 13a-16 OR 15d-16 UNDER THE
SECURITIES EXCHANGE ACT OF 1934

For the month of February, 2019.

Commission File Number 33-65728

CHEMICAL AND MINING COMPANY OF CHILE INC.

(Translation of registrant's name into English)

El Trovador 4285, Santiago, Chile (562) 2425-2000

(Address of principal executive office)

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F.

Form 20-F: Form 40-F:

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1):

Note: Regulation S-T Rule 101(b)(1) only permits the submission in paper of a Form 6-K if submitted solely to provide an attached annual report to security holders.

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7): _____

Note: Regulation S-T Rule 101(b)(7) only permits the submission in paper of a Form 6-K if submitted to furnish a report or other document that the registrant foreign private issuer must furnish and make public under the laws of the jurisdiction in which the registrant is incorporated, domiciled or legally organized (the registrant's "home country"), or under the rules of the home country exchange on which the registrant's securities are traded, as long as the report or other document is not a press release, is not required to be and has not been distributed to the registrant's security holders, and, if discussing a material event, has already been the subject of a Form 6-K submission or other Commission filing on EDGAR.

Santiago, Chile. February 27, 2019.- Sociedad Química y Minera de Chile S.A. (SQM) (NYSE: SQM; Santiago Stock Exchange: SQM-B, SQM-A) reported **earnings today for the twelve months ended December 31, 2018** of US\$439.8 million (US\$1.67 per ADR), an increase from US\$427.7 million (US\$1.63 per ADR) reported for the twelve months ended December 31, 2017. **Gross profit**⁽³⁾ reached US\$782.3 million (34.5% of revenues) for the twelve months ended December 31, 2018, higher than US\$762.5 million (35.3% of revenues) recorded for the twelve months ended December 31, 2017. **Revenues** totaled US\$2,265.8 million for the twelve months ended December 31, 2018, representing an increase of 5.0% compared to US\$2,157.3 million reported for the twelve months ended December 31, 2017.

The Company also announced earnings for the fourth quarter of 2018, **reporting net income** of US\$108.6 million (US\$0.41 per ADR) compared to US\$110.5 million (US\$0.42 per ADR) for the fourth quarter of 2017. **Gross profit** for the fourth quarter 2018 reached US\$201.5 million; lower than the US\$216.1 million recorded for the fourth quarter 2017. **Revenues** for the fourth quarter 2018 totaled US\$565.2 million, a decrease of approximately 1.6% compared to the fourth quarter 2017, when revenues amounted to US\$574.8 million.

SQM's Chief Executive Officer, Ricardo Ramos, stated: "During 2018, our strong results were led by higher average prices in the lithium business line, higher specialty plant nutrient sales volumes, and higher average prices and sales volumes in the iodine business line. These factors offset the impact of the lower sales volumes of potassium chloride. The lithium market continued to grow at unprecedented levels. We believe that demand growth surpassed 25% in 2018, led by growth in the electric vehicle market. We believe electric vehicle penetration levels reached 2% in 2018, and we expect these levels to increase significantly in the future. As a result of strong demand growth, average prices in 2018 were significantly higher than prices reported in 2017; as anticipated, prices in the fourth quarter also remained strong. We believe lithium demand could grow at least 20% in 2019, and we will invest accordingly in this growing market."

He continued by saying, "In recent weeks, the north of Chile, including areas near our operations, was impacted by heavy rains. Our first priority was the safety of our employees, and we are pleased to announce that no injuries were reported. Following this climactic event, we have been very active in helping the neighboring communities which were impacted, and suffered during the rain. Finally, while some of our facilities were not operating at 100% for a short period of time, we do not believe that there will be a lasting effect on our sales volumes or revenues in coming quarters. We will continue assessing any potential impacts of these rains, and will inform the market if anything relevant materializes."

Growth projects

In 2018, we announced a three-stage expansion of our lithium carbonate operations in Chile. We will continue to work to bring our capacity to 180,000 MT/year in the coming years. We will evaluate our capacity, production and sales volumes based on market conditions and our strategy.

In Australia, we continue to move forward with the Mount Holland lithium project. A recent milestone for this project was Kidman's receipt of necessary exemptions from the relevant expenditure requirement in relation to mining tenements from the Minister of Mines and Petroleum in Western Australia. We expect to complete the feasibility study during the second half of this year, at which time we believe we will have a better estimate associated with the capex and costs of the project.

Following record sales volumes of iodine in 2018, and given our leading position in the iodine market, we are always anticipating the future needs of our customer to ensure that market demand is met. We recently submitted an environmental permit for the Tente en el Aire project to modify our existing operations in Nueva Victoria, Chile. Our current production capacity of iodine is 14,000 MT/year, and this permit will allow us to increase capacity to support the market growth.

We continue to move forward on our nitrates expansion in Coya Sur, Chile with a total capex of US\$70 million. We are working on several initiatives, the most important being the development of a new production facility, NPT4, that will be focused on the production of solar salts to let us supply this growing market.

The 2019 capex approved by the Board, which includes investments in Chile, Australia and maintenance capex, is US\$360 million.

Segment Analysis

Lithium and Derivatives

Revenues from lithium and derivatives totaled US\$734.8 million during the twelve months ended December 31, 2018, an increase of 14.0% compared to the US\$644.6 million for the twelve months ended December 31, 2017.

Lithium and derivatives revenues increased 30.4% during the fourth quarter of 2018 compared to the fourth quarter of 2017. Total revenues amounted to US\$233.9 million during the fourth quarter of 2018, compared to US\$179.4 million in the fourth quarter of 2017.

Lithium and Derivatives Sales Volumes and Revenues:

		12M2018	12M2017	2018/2017	
Lithium and Derivatives	Th. MT	45.1	49.7	-4.6	-9 %
Lithium and Derivatives Revenues	MUS\$	734.8	644.6	90.2	14 %
Lithium and Derivatives	Th. MT	14.7	13.2	1.5	11 %
Lithium and Derivatives Revenues	MUS\$	233.9	179.4	54.5	30 %

The lithium market continued its strong growth in 2018, with total demand growth surpassing 27% according to our estimates. Demand growth was led by demand related to electric vehicles, we believe that full electric vehicle penetration rates reached 2% in 2018, and this number is expected to over double in the next five years. Demand in 2019 should be at least 20% greater than total demand in 2018.

Our average prices in 2018, increased over 25% compared to the previous year, and we were able to capture a significant price premium compared to many of our competitors during the same period. New supply is entering the market, which could impact our ability to maintain this price premium in 2019. However, there are several lithium grades of different qualities available in the lithium market, and not all products are sold at the same price; we do not believe that all lithium supply entering the market is suitable for all customers. We will focus on providing a high-quality lithium to our customers in 2019. We will also rebuild some inventories this year, and as a result of this, we believe our sales volumes in 2019 could be slightly higher to sales volumes seen in 2018.

Gross profit⁽⁴⁾ for the Lithium and Derivatives segment accounted for approximately 53% of SQM's consolidated gross profit for the twelve months ended December 31, 2018.

Specialty Plant Nutrition (SPN)

Revenues from the SPN business line for the twelve months ended December 31, 2018 totaled US\$781.8 million, an increase of 12.1% compared to \$697.3 million reported for the twelve months ended December 31, 2017.

Fourth quarter 2018 revenues reached US\$174.4 million, 6.2% lower than the US\$185.9 million reported in the fourth quarter of 2017.

Specialty Plant Nutrition Sales Volumes and Revenues:

		12M2018	12M2017	2018/2017	
Specialty Plant Nutrition Total Volumes	Th. MT	1,082.6	966.2	116.4	12%
Sodium Nitrate	Th. MT	25.0	26.7	-1.7	-6%
Potassium Nitrate and Sodium Potassium Nitrate	Th. MT	673.4	601.4	72.0	12%
Specialty Blends	Th. MT	242.5	209.0	33.5	16%
Other specialty plant nutrients (*)	Th. MT	141.7	129.1	12.5	10%
Specialty Plant Nutrition Revenues	MUS\$	781.8	697.3	84.5	12%

		4Q2018	4Q2017	2018/2017	
Specialty Plant Nutrition Total Volumes	Th. MT	237.7	254.2	-16.5	-6%
Sodium Nitrate	Th. MT	2.2	8.1	-5.9	-73%
Potassium Nitrate and Sodium Potassium Nitrate	Th. MT	138.4	152.7	-14.3	-9%
Specialty Blends	Th. MT	62.4	56.9	5.5	10%
Other specialty plant nutrients (*)	Th. MT	34.8	36.5	-1.8	-5%
Specialty Plant Nutrition Revenues	MUS\$	174.4	185.9	-11.5	-6%

*Includes trading of other specialty fertilizers.

The potassium nitrate market remained strong this year, and we believe it grew approximately 6% in 2018. Sales volumes during 2018 for this business line increased 12% compared to 2017, due to demand growth and limited supply from our competitors. Sales volumes in the fourth quarter were lower than the third quarter as a result of seasonality and additional supply in the market. Average prices during 2018 remained flat compared to prices reported the previous year.

We believe that demand growth of potassium nitrate will be approximately 6% in 2019. SQM expects that new supply will continue to enter the market this year. As part of our ongoing strategy in the potassium nitrate market, we will continue to invest in this growing market.

SPN **gross profit** accounted for approximately 22% of SQM's consolidated gross profit for the twelve months ended December 31, 2018.

Iodine and Derivatives

Revenues from sales of iodine and derivatives during the twelve months ended December 31, 2018 were US\$325.0 million, an increase of 28.9% compared to US\$252.1 million generated for the twelve months ended December 31, 2017.

Revenues from sales of iodine and derivatives for the fourth quarter of 2018 amounted to US\$81.9 million, an increase of 34.7% compared to US\$60.8 million achieved during the fourth quarter of 2017.

Iodine and Derivative Sales Volumes and Revenues:

		12M2018	12M2017	2018/2017	
Iodine and Derivatives	Th. MT	13.3	12.7	0.6	5 %
Iodine and Derivatives Revenues	MUS\$	325.0	252.1	72.8	29 %

		4Q2018	4Q2017	2018/2017	
Iodine and Derivatives	Th. MT	3.2	2.9	0.2	8 %
Iodine and Derivatives Revenues	MUS\$	81.9	60.8	21.1	35 %

Higher iodine revenues in 2018 were the result of higher sales volumes and higher average prices. Our sales volumes in 2018 reached 13,300 MT, over 5% more than sales volumes reported in 2017, and setting a new company record. We closed the fourth quarter with average prices of almost US\$26/kg, exceeding our original expectations.

The iodine market grows consistently between 2-4% per year, and 2019 should be no different. As the largest player in this market, we believe it is important to plan for the future, meet the growing needs of our customers. For this reason, we submitted the environmental permit for an expansion of which will allow us to increase our capacity and meet future demand growth.

Gross profit for the Iodine and Derivatives segment accounted for approximately 14% of SQM's consolidated gross profit for the twelve months ended December 31, 2018.

Potassium: Potassium Chloride & Potassium Sulfate (MOP & SOP)

Potassium chloride and potassium sulfate revenues for 2018 totaled US\$267.4 million, a 29.5% decrease compared to the US\$379.3 million reported for the twelve months ended December 31, 2017.

Potassium chloride and potassium sulfate revenues decreased 39.2% in the fourth quarter of 2018, totaling US\$47.7 million compared to the US\$78.4 million reported for the fourth quarter of 2017.

Potassium Chloride & Potassium Sulfate Sales Volumes and Revenues:

		12M2018	12M2017	2018/2017	
Potassium Chloride and Potassium Sulfate	Th. MT	831.8	1,344.3	-512.6	-38%
Potassium Chloride and Potassium Sulfate Revenues	MUS\$	267.5	379.3	-111.9	-29%

		4Q2018	4Q2017	2018 /2017	
Potassium Chloride and Potassium Sulfate	Th. MT	129.4	262.0	-132.6	-51%
Potassium Chloride and Potassium Sulfate Revenues	MUS\$	47.7	78.4	-30.7	-39%

Global demand in the potassium chloride market grew to approximately 66 million tons in 2018, growing about 3% when compared to last year. Prices in this market also increased during the year, and average prices in the business line increased 14% in 2018 compared to the previous year. Despite higher average prices, revenues in the potassium chloride and potassium sulfate business line decreased as anticipated, with sales volumes 38% lower during 2018 compared to 2017.

These lower sales volumes were a result of our production limitations as we focused our production efforts in the Salar de Atacama on increasing lithium yields. Furthermore, as a result of environmental compliance plan that was approved by the Chilean Environmental Authority (SMA) at the end of the year, we are temporarily extracting less brine than we had in the past. We had previously announced that potassium chloride and potassium sulfate sales volumes could decrease significantly in 2019 when compared to 2018, we now believe that sales volumes for 2019 will be below 500,000 MT.

Gross profit for Potassium Chloride and Potassium Sulfate business line accounted for approximately 6% of SQM's consolidated gross profit for the twelve months ended December 31, 2018.

Industrial Chemicals

Industrial chemicals revenues for the twelve months ended December 31, 2018 reached US\$108.3 million, a 20.1% decrease compared to US\$135.6 million for the twelve months ended December 31, 2017.

Revenues for the fourth quarter of 2018 totaled US\$13.7 million, a decrease of 74.9% compared to US\$54.6 million for the fourth quarter of 2017.

Industrial Chemicals Sales Volumes and Revenues:

		12M2018	12M2017	2018/2017	
Industrial Nitrates	Th. MT	135.9	167.6	-31.7	-19%
Industrial Chemicals Revenues	MUS\$	108.3	135.6	-27.3	-20%

		4Q2018	4Q2017	2018 /2017	
Industrial Nitrates	Th. MT	18.1	64.4	-46.2	-72%
Industrial Chemicals Revenues	MUS\$	13.7	54.6	-40.9	-75%

In 2018, we sold approximately 47,000 MT of solar salts, we expect to sell a similar amount this year.

Gross profit for the Industrial Chemicals segment accounted for approximately 5% of SQM's consolidated gross profit for the twelve months ended December 31, 2018.

Other Commodity Fertilizers & Other Income

Revenues from sales of other commodity fertilizers and other income reached US\$48.5 million in the twelve months ended December 31, 2018, the same as the US\$48.5 million for the twelve months ended December 31, 2017.

Financial Information

Administrative Expenses

Administrative expenses totaled US\$118.1 million (5.2% of revenues) for the twelve months ended December 31, 2018, compared to US\$101.2 million (4.7% of revenues) recorded during the twelve months ended December 31, 2017.

Net Financial Expenses

Net financial expenses for the twelve months ended December 31, 2018 were US\$37.4 million, compared to US\$36.6 million recorded for the twelve months ended December 31, 2017.

Income Tax Expense

Income tax expense reached US\$179.0 million for the twelve months ended December 31, 2018, representing an effective tax rate of 28.8%, compared to an income tax expense of US\$166.2 million during the twelve months ended December 31, 2017. The Chilean corporate tax rate was 27.0% during the 2018 period and 25.5% during the 2017 period.

Other

The adjusted EBITDA margin was approximately 39.1% for the twelve months ended December 31, 2018. Adjusted EBITDA margin for the twelve months ended December 31, 2017 was approximately 41.8%. The adjusted EBITDA margin for the fourth quarter of 2018 was approximately 38.4%.

Notes:

- 1) Net income refers to the comprehensive income attributable to controlling interests.
- 2) Adjusted EBITDA = gross profit - administrative expenses + depreciation and amortization. Adjusted EBITDA margin = Adjusted EBITDA/revenues.
- 3) Gross profit corresponds to consolidated revenues less total costs, including depreciation and amortization and excluding administrative expenses.
A significant portion of SQM's costs of goods sold are costs related to common productive processes (mining, crushing, leaching, etc.) which are distributed among the different final products. To estimate gross profit by
- 4) business line in both periods covered by this report, the Company employed similar criteria on the allocation of common costs to the different business areas. This gross profit distribution should be used only as a general and approximated reference of the margins by business line.

Balance Sheet

(US\$ Millions)	As of Dec. 31, 2018	As of Dec. 31, 2017
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Total Current Assets		2,399.6 2,466.3
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Cash and
equivalents

Reverse Stock Splits. A reverse stock split is a decrease in the number of outstanding shares of stock of the issuer of the Reference Asset without any change in its stockholders' equity. Each outstanding share is worth more as a result of a reverse stock split.

If the Reference Asset is subject to a reverse stock split, then the Calculation Agent will adjust the Exchange Ratio to equal the product of the Prior Exchange Ratio and the quotient of (1) the number

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of shares of the Reference Asset outstanding immediately after the reverse stock split becomes effective and (2) the number of shares of the Reference Asset outstanding immediately before the reverse stock split becomes effective. The Initial Level, Contingent Protection Percentage and Contingent Protection Level also will be adjusted as discussed above.

Stock Dividends. In a stock dividend, a corporation issues additional shares of its stock to all holders of its outstanding stock in proportion to the shares they own. Each outstanding share is worth less as a result of a stock dividend.

If the Reference Asset is subject to a stock dividend payable in the Reference Asset, then the Calculation Agent will adjust the Exchange Ratio to equal the sum of the Prior Exchange Ratio plus the product of (1) the number of shares issued in the stock dividend with respect to one share of the Reference Asset and (2) the Prior Exchange Ratio. The Initial Level, Contingent Protection Percentage and Contingent Protection Level will also be adjusted as discussed above.

Other Dividends and Distributions

The Exchange Ratio will not be adjusted to reflect dividends or other distributions paid with respect to the Reference Asset, other than:

stock dividends as described above,

issuances of transferable rights and warrants with respect to the Reference Asset as described below in " Transferable Rights and Warrants," and

extraordinary dividends as described below.

A dividend or other distribution with respect to the Reference Asset will be deemed to be an extraordinary dividend if its per share value exceeds that of the immediately preceding non-extraordinary dividend, if any, for the Reference Asset by an amount equal to at least 10% of the Closing Price of the Reference Asset on the Business Day before the ex-dividend date. The ex-dividend date for any dividend or other distribution is the first day on which the Reference Asset trades without the right to receive that dividend or distribution.

If an extraordinary dividend occurs, the Calculation Agent will adjust the Exchange Ratio to equal the product of (1) the Prior Exchange Ratio and (2) a fraction, the numerator of which is the Closing Price of the Reference Asset on the Business Day before the ex-dividend date and the denominator of which is the amount by which that Closing Price exceeds the extraordinary dividend amount. The Initial Level, Contingent Protection Percentage and Contingent Protection Level also will be adjusted as discussed above.

The extraordinary dividend amount with respect to an extraordinary dividend for the Reference Asset equals:

for an extraordinary dividend that is paid in lieu of a regular quarterly dividend, the amount of the extraordinary dividend per share of the Reference Asset minus the amount per share of the immediately preceding dividend, if any, that was not an extraordinary dividend for the Reference Asset, or

for an extraordinary dividend that is not paid in lieu of a regular quarterly dividend, the amount per share of the extraordinary dividend.

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To the extent an extraordinary dividend is not paid in cash, the value of the non-cash component will be determined by the Calculation Agent in its sole discretion. A distribution on the Reference Asset that is a dividend payable in Reference Asset that is also an extraordinary dividend, or an issuance of rights or warrants with respect to the Reference Asset that is also an extraordinary dividend will result in an adjustment to the Exchange Ratio only as described in " Other Dividends and Distributions" above, " Transferable Rights and Warrants" below, as the case may be, and not as described here.

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Transferable Rights and Warrants

If the issuer of the Reference Asset issues transferable rights or warrants to all holders of the Reference Asset to subscribe for or purchase the Reference Asset at an exercise price per share that is less than the Closing Price of the Reference Asset on the Business Day before the ex-dividend date for issuance, then the Exchange Ratio will be adjusted by multiplying the Prior Exchange Ratio by the following fraction:

the numerator will be the number of shares of the Reference Asset outstanding at the close of business on the day before that ex-dividend date plus the number of additional shares of the Reference Asset offered for subscription or purchase under those transferable rights or warrants, and

the denominator will be the number of shares of the Reference Asset outstanding at the close of business on the day before that ex-dividend date plus the product of (1) the total number of additional shares of the Reference Asset offered for subscription or purchase under the transferable rights or warrants and (2) the exercise price of those transferable rights or warrants divided by the Closing Price on the Business Day before that ex-dividend date.

The Initial Level and Contingent Protection Level also will be adjusted as discussed above.

Reorganization Events

Each of the following is a reorganization event:

the Reference Asset is reclassified or changed;

the issuer of the Reference Asset has been subject to a merger, consolidation or other combination and either is not the surviving entity or is the surviving entity but all outstanding shares of the Reference Asset are exchanged for or converted into other property;

a statutory share exchange involving outstanding shares of the Reference Asset and the securities of another entity occurs, other than as part of an event described above;

the issuer of the Reference Asset sells or otherwise transfers its property and assets as an entirety or substantially as an entirety to another entity;

the issuer of the Reference Asset effects a spin-off that is, issues to all holders of shares of the Reference Asset equity securities of another issuer, other than as part of an event described above; or

the issuer of the Reference Asset is liquidated, dissolved or wound up or is subject to a proceeding under any applicable bankruptcy, insolvency or other similar law, or another entity completes a tender or exchange offer for all outstanding shares of the Reference Asset.

Adjustments for Reorganization Events. If a reorganization event occurs with respect to the Reference Asset, then the Calculation Agent will adjust the Initial Level, the Exchange Ratio, the Contingent Protection Percentage and the Contingent Protection Level by adjusting the amount and type of property or properties whether cash, securities, other property or a combination that a prior holder of an amount of Reference Asset equal to the Exchange Ratio would hold after the reorganization event has

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occurred. We refer to this new property as the distribution property.

For the purpose of making an adjustment required by a reorganization event, the Calculation Agent, in its sole discretion, will determine the value of each type of distribution property. For any distribution property consisting of a security, the Calculation Agent will use the Closing Price of the security on the relevant exchange notice date for the exchange. The Calculation Agent may value other types of property in any manner it determines, in its sole discretion, to be appropriate. If a holder of

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the Reference Asset may elect to receive different types or combinations of types of distribution property in the reorganization event, the distribution property will consist of the types and amounts of each type distributed to a holder that makes no election, as determined by the Calculation Agent in its sole discretion.

If a reorganization event occurs and the Calculation Agent adjusts the Exchange Ratio to consist of the distribution property in the reorganization event as described above, the Calculation Agent will make further antidilution adjustments for any later events that affect the distribution property, or any component of the distribution property, comprising the new Exchange Ratio. The Calculation Agent will do so to the same extent that it would make adjustments if the Reference Asset were outstanding and were affected by the same kinds of events. If a subsequent reorganization event affects only a particular component of the Exchange Ratio, the required adjustment will be made with respect to that component, as if it alone were the Exchange Ratio.

For example, if the issuer of the Reference Asset merges into another company and each share of stock of the Reference Asset is converted into the right to receive two common shares of the surviving company and a specified amount of cash, the Exchange Ratio will be adjusted to consist of two common shares of the surviving company and the specified amount of cash. The Calculation Agent will adjust the common share component of the new stock redemption amount to reflect any later stock split or other event, including any later reorganization event, that affects the common shares of the surviving company, to the extent described in the section entitled "Antidilution Adjustments for Equity Securities," as if the common shares were the Reference Asset. In that event, the cash component will not be adjusted but will continue to be a component of the Exchange Ratio (with no interest adjustment). Consequently, the final Note value will include the final value of the two shares of the surviving company and the cash.

In this prospectus supplement, references to the Calculation Agent adjusting the Exchange Ratio in respect of a dilution event mean that the Calculation Agent will adjust the Exchange Ratio in the manner described in this subsection if the dilution event is a reorganization event. If a reorganization event occurs, the distribution property distributed in the event will be substituted for the Reference Asset as described above. Consequently, in this prospectus supplement, references to the Reference Asset mean any distribution property that is distributed in a reorganization event and comprises the adjusted Exchange Ratio. Similarly, references to the issuer of the Reference Asset mean any successor entity in a reorganization event.

USE OF PROCEEDS AND HEDGING

The net proceeds we receive from the sale of the Notes will be used for general corporate purposes and, in part, in connection with hedging our obligations under the Notes through one or more of our subsidiaries. The original issue price of the Notes includes the Agent's commissions (as disclosed in the applicable pricing supplement) paid with respect to the Notes and the cost of hedging our obligations thereunder. The cost of hedging includes the projected profit that our affiliates expect to realize in consideration for assuming the risks inherent in managing the hedging transactions. Because hedging our obligations entails risk and may be influenced by market forces beyond our or our affiliates' control, such hedging may result in a profit that is more or less than initially projected, or could result in a loss.

On or prior to the Pricing Date, we, through our affiliates or others, expect to hedge our anticipated exposure in connection with the Notes by taking positions in the instrument or instruments comprising the Reference Asset, in option or futures contracts relating to such instrument or instruments listed on major securities or futures markets, in other types of derivative instruments relating to such instrument or instruments, or in any other available securities, commodities or instruments that we may wish to use in connection with such hedging. Such purchase activity could

increase the Initial Level of the Reference Asset, and, accordingly, the level at which the Reference Asset must close to surpass the Initial Level. In addition, through our affiliates, we are likely to modify our hedge position throughout the life of the Notes, by purchasing and selling the instrument or instruments comprising the Reference Asset, options or futures contracts relating to such instrument or instruments listed on major securities or futures markets, in other types of derivative instruments relating to such instrument or instruments or positions in any other available securities, commodities or instruments that we may wish to use in connection with such hedging activities. We cannot give any assurance that our hedging activities will not affect the price of the instrument or instruments comprising the Reference Asset and, therefore, adversely affect the value of the Notes or the payment that you will receive at maturity or upon any acceleration of the Notes.

CERTAIN U.S. FEDERAL INCOME TAX CONSIDERATIONS

The following discussion summarizes certain of the material U.S. federal income tax consequences of the purchase, beneficial ownership, and disposition of the Notes. For purposes of this summary, a "U.S. Holder" is a beneficial owner of a note that is:

an individual who is a citizen or a resident of the United States, for U.S. federal income tax purposes;

a corporation (or other entity that is treated as a corporation for U.S. federal tax purposes) that is created or organized in or under the laws of the United States or any State thereof (including the District of Columbia);

an estate whose income is subject to U.S. federal income taxation regardless of its source; or

a trust if a court within the United States is able to exercise primary supervision over its administration, and one or more United States persons (as defined for U.S. federal income tax purposes) have the authority to control all of its substantial decisions.

For purposes of this summary, a "Non-U.S. Holder" is a beneficial owner of a Note that is:

a nonresident alien individual for U.S. federal income tax purposes;

a foreign corporation for U.S. federal income tax purposes;

an estate whose income is not subject to U.S. federal income tax on a net income basis; or

a trust if no court within the United States is able to exercise primary jurisdiction over its administration or if no United States persons (as defined for U.S. federal income tax purposes) have the authority to control all of its substantial decisions.

An individual may, subject to certain exceptions, be deemed to be a resident of the United States by reason of being present in the United States for at least 31 days in the calendar year and for an aggregate of at least 183 days during a three-year period ending in the current calendar year (counting for such

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purposes all of the days present in the current year, one-third of the days present in the immediately preceding year, and one-sixth of the days present in the second preceding year).

This summary is based on interpretations of the Internal Revenue Code of 1986, as amended (the "Code"), regulations issued thereunder, and rulings and decisions currently in effect (or in some cases proposed), all of which are subject to change. Any such change may be applied retroactively and may adversely affect the federal income tax consequences described herein. This summary addresses only U.S. Holders that purchase Notes at initial issuance and beneficially own such Notes as capital assets and not as part of a "straddle," "hedge," "synthetic security" or a "conversion transaction" for federal income tax purposes, or as part of some other integrated investment. This summary does not discuss all of the tax consequences that may be relevant to particular investors or to investors subject to special treatment under the federal income tax laws (such as banks, thrifts, or other financial institutions;

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insurance companies; securities dealers or brokers, or traders in securities electing mark-to-market treatment; mutual funds or real estate investment trusts; small business investment companies; S corporations; investors that hold their Notes through a partnership or other entity treated as a partnership for U.S. federal tax purposes; investors whose functional currency is not the U.S. dollar; certain former citizens or residents of the United States; persons subject to the alternative minimum tax; retirement plans or other tax-exempt entities, or persons holding the Notes in tax-deferred or tax-advantaged accounts; or "controlled foreign corporations" or "passive foreign investment companies" for U.S. federal income tax purposes). This summary also does not address the tax consequences to shareholders, or other equity holders in, or beneficiaries of, a holder, or any state, local or foreign tax consequences of the purchase, ownership or disposition of the Notes.

Accordingly, prospective investors are urged to consult their tax advisors with respect to the federal, state and local tax consequences of investing in the Notes, as well as any consequences arising under the laws of any other taxing jurisdiction to which they may be subject.

PROSPECTIVE PURCHASERS OF NOTES SHOULD CONSULT THEIR TAX ADVISORS AS TO THE FEDERAL, STATE, LOCAL, AND OTHER TAX CONSEQUENCES TO THEM OF THE PURCHASE, OWNERSHIP AND DISPOSITION OF NOTES.

Tax Treatment of U.S. Holders

General.

There are no statutory provisions, regulations, published rulings or judicial decisions addressing the characterization for federal income tax purposes of securities with terms that are substantially the same as those of the Notes. Under one approach, each Note should be treated for federal income tax purposes as a put option written by you (the "Put Option") that permits us to (1) sell the Reference Assets to you at maturity for an amount equal to the Deposit (as defined below), plus any accrued and unpaid interest and/or original issue discount (as described below) on the Deposit (which should generally equal the principal amount of the Note), or (2) "cash settle" the Put Option (i.e., require you to pay to us at maturity the difference between the Deposit (plus any accrued and unpaid interest and/or original issue discount on the Deposit) and the amount of cash received by you on the Note at maturity), and a deposit with us of cash in an amount equal to the "issue price" (as described below) of your Notes (the "Deposit") to secure your potential obligation under the Put Option. We intend to treat the Notes consistent with this approach., and pursuant to the terms of the Notes, you agree to treat the Notes under this approach for all U.S. federal income tax purposes. Except as otherwise provided in " Alternative Characterizations and Treatments," the balance of this summary assumes that the Notes are so treated.

A portion of any stated interest payment and discount on a Note should be treated as put premium paid to us in respect of the Put Option (the "Put Premium") and the remainder as interest and/or original issue discount on the Deposit. The pricing supplement will indicate the portion of the stated interest and any discount that we intend to allocate to the Put Premium on the Put Option and the portion that we intend to allocate to interest and/or original issue discount on the Deposit. By purchasing the Notes you agree to this treatment of the stated interest and discount, if any.

Tax Treatment of Put Premium on the Put Option.

The Put Premium should not be taxable to a U.S. Holder upon its receipt. If the Put Option expires unexercised (i.e., the payment at maturity is equal to the full principal amount of the Notes), the U.S. Holder should recognize the total Put Premium received as short-term capital gain at such time.

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If we exercise the Put Option and sell the Reference Assets to a U.S. Holder, the U.S. Holder should not recognize any gain or loss (other than with respect to cash received in lieu of fractional shares, as described below) in respect of the Put Option. In this event, the U.S. Holder should have an adjusted tax basis in all Reference Assets received (including for this purpose any fractional shares) equal to the Deposit (plus any accrued and unpaid interest and/or original issue discount on the Deposit) less the total Put Premium received. The U.S. Holder's holding period for any Reference Assets received should start on the day after the delivery of the Reference Assets. The U.S. Holder should generally recognize a short-term capital gain or loss with respect to cash received in lieu of fractional shares in an amount equal to the difference between the amount of such cash received and the U.S. Holder's basis in the fractional shares, which is equal to the U.S. Holder's basis in all of the Reference Assets (including the fractional shares), times a fraction, the numerator of which is the fractional shares and the denominator of which is all of the Reference Assets (including fractional shares).

U.S. Holders should consult the offering documents for the Reference Assets for the U.S. federal income tax treatment of acquiring, owning and selling the Reference Assets.

If we elect to cash settle the Put Option, a U.S. Holder should generally recognize a short-term capital gain or loss equal to (i) the amount of cash received on the Note less (ii) the Deposit (plus any accrued and unpaid interest and/or original issue discount on the Deposit), less the total Put Premium received.

Upon the exercise or cash settlement of a Put Option, a U.S. Holder should generally recognize gain or loss on the Deposit equal to (i) the Deposit (plus any accrued and unpaid original issue discount on the Deposit) less (ii) the U.S. Holder's adjusted tax basis in the Deposit. See " Sale or Exchange of the Notes" below regarding the gain or loss recognized on the Deposit.

Tax Treatment of the Deposit on Notes with a Term of One Year or Less

If a Note has a term of one year or less, we intend to treat the Deposit as a short-term obligation for federal income tax purposes. U.S. Holders that report income for federal income tax purposes on the accrual method and certain other U.S. Holders will be required to include in income original issue discount as it accrues on a Deposit that is a short-term obligation, unless the U.S. Holder elects to accrue acquisition discount in lieu of original issue discount, as described below. The aggregate original issue discount that will be required to be accrued will be equal to the difference between all payments on the Deposit over its issue price, reduced to the extent that the U.S. Holder purchases a Note for more than its issue price. The issue price of a Deposit generally is the first price at which a substantial amount of the Notes is sold to the public (not including sales to bond houses, brokers or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers) for money. The applicable pricing supplement will either provide the issue price or the name or title and address or telephone number of our representative, who will provide the issue price. If a U.S. Holder elects to accrue acquisition discount in lieu of original issue discount, the aggregate amount of acquisition discount that will be required to be accrued will be equal to the difference between all payments under the Deposit over the U.S. Holder's purchase price of the Note. Original issue discount and acquisition discount on a Deposit that is a short-term obligation are accrued on a straight-line basis, unless an irrevocable election is made with respect to the Deposit to accrue the original issue discount or acquisition discount under the constant yield method based on daily compounding.

In general, an individual or other cash method U.S. Holder of a Deposit that is a short-term obligation is not required to accrue and report original issue discount or acquisition discount on the Deposit, unless the U.S. Holder elects to do so. If the U.S. Holder does not elect to include original issue discount or acquisition discount in income as it accrues, the U.S. Holder generally will be taxable on interest payments on the Deposit in the taxable year they are received. An election by a cash basis

U.S. Holder to report original issue discount currently on a Deposit, as well as the election to accrue acquisition discount instead of original issue discount with respect to a Deposit, applies to all short-term obligations acquired by the U.S. Holder during the first taxable year for which the election is made, and all subsequent taxable years of the U.S. Holder, unless the Internal Revenue Service ("IRS") consents to a revocation. In the case of a U.S. Holder that is not required (and does not elect) to include original issue discount or acquisition discount in income as it accrues, any gain realized on the sale, exchange or other taxable disposition of a Deposit that is a short-term obligation is treated as ordinary income to the extent of the original issue discount that had accrued on a straight-line basis (or, if elected, under the constant yield method based on daily compounding) through the date of sale, exchange or other disposition, and the U.S. Holder will be required to defer deductions for any interest paid on indebtedness incurred or continued to purchase or carry the Note in an amount not exceeding the accrued original issue discount (determined on a ratable basis, unless the U.S. Holder elects to use a constant yield basis) on the Deposit, until the original issue discount is recognized.

Accrual method and other U.S. Holders that are required to report original issue discount (or acquisition discount) on short-term obligations, and cash method U.S. Holders that elect to include original issue discount (or acquisition discount) on short-term obligations in income should generally treat periodic interest payments as nontaxable payments of accrued original issue discount (or acquisition discount) to the extent of the accrual, then as a return of principal.

Tax Treatment of the Deposit on Notes with a Term of More Than a Year.

This section describes certain federal income tax consequences of the Deposit with respect to Notes with a term of more than a year.

Interest. Unless otherwise indicated in the pricing supplement, the portion of the stated interest payable on a Note that is treated as interest on the Deposit will be taxable to a U.S. Holder as ordinary interest income at the time it accrues or is received in accordance with the U.S. Holder's normal method of accounting for federal income tax purposes.

Original Issue Discount. The following is a summary of the principal U.S. federal income tax consequences of the ownership of Deposits having original issue discount. The applicable pricing supplement will indicate if the Deposit is issued with original issue discount.

A Deposit will have original issue discount for U.S. federal income tax purposes if its issue price is less than its "stated redemption price at maturity" by more than a *de minimis* amount, as discussed below. The issue price of a Note generally is the first price at which a substantial amount of the Notes is sold to the public (not including sales to bond houses, brokers or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers) for money. The applicable pricing supplement will either provide the issue price or the name or title and address or telephone number of our representative, who will provide the issue price. The "stated redemption price at maturity" of a Deposit generally is the total amount of all payments provided by the Deposit other than "qualified stated interest" payments. Qualified stated interest generally is stated interest that is "unconditionally payable" in cash or property (other than debt instruments of the issuer) at least annually either at a single fixed rate, or a "qualifying variable rate" (as described below). Qualified stated interest is taxable to a U.S. Holder when accrued or received in accordance with the U.S. Holder's normal method of tax accounting.

Deposits having "*de minimis*" original issue discount will generally be treated as not having original issue discount. A Deposit will be considered to have *de minimis* original issue discount if the difference between its stated redemption price at maturity and its issue price is less than the product of $\frac{1}{4}$ of 1 percent of the stated redemption price at maturity and the number of complete years from the issue date to maturity.

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U.S. Holders of Deposits having original issue discount will be required to include original issue discount in gross income for U.S. federal income tax purposes as it accrues (regardless of the U.S. Holders' method of accounting), which may be in advance of receipt of the cash attributable to such income. Original issue discount accrues under the constant yield method, based on a compounded yield to maturity, as described below. Accordingly, U.S. Holders of Deposits having original issue discount will generally be required to include in income increasingly greater amounts of original issue discount in successive accrual periods.

The annual amount of original issue discount includible in income by the initial U.S. Holder of a Deposit having original issue discount will equal the sum of the "daily portions" of the original issue discount with respect to the Deposit for each day on which the U.S. Holder held the Deposit during the taxable year. Generally, the daily portions of original issue discount are determined by allocating to each day in an "accrual period" the ratable portion of original issue discount allocable to the accrual period. The term accrual period means an interval of time with respect to which the accrual of original issue discount is measured, and which may vary in length over the term of the Deposit provided that each accrual period is no longer than one year and each scheduled payment of principal or interest occurs on either the first or last day of an accrual period.

The amount of original issue discount allocable to an accrual period will be the excess of:

the product of the "adjusted issue price" of the Deposit at the commencement of the accrual period and its "yield to maturity" over

the amount of any qualified stated interest payments allocable to the accrual period.

The adjusted issue price of a Deposit at the beginning of the first accrual period is its issue price and, on any day thereafter, it is the sum of the issue price and the amount of original issue discount previously includible in the gross income of the U.S. Holder, reduced by the amount of any payment other than a payment of qualified stated interest previously made on the Deposit. The yield to maturity of a Deposit is the yield to maturity computed on the basis of compounding at the end of each accrual period properly adjusted for the length of the particular accrual period. If all accrual periods are of equal length except for a shorter initial and/or final accrual period(s), the amount of original issue discount allocable to the initial period may be computed using any reasonable method; however, the original issue discount allocable to the final accrual period will always be the difference between the amount payable at maturity (other than a payment of qualified stated interest) and the adjusted issue price at the beginning of the final accrual period.

Variable Rate Debt Instruments. The applicable pricing supplement will indicate whether a Deposit is a "variable rate debt instrument" that is issued with original issue discount.

If a Deposit is a variable rate debt instrument that is issued with original issue discount, special rules apply to determine the amount of qualified stated interest and the amount and accrual of any original issue discount. If the Deposit bears interest that is unconditionally payable at least annually at a single qualified floating rate or objective rate (any such rate, a "qualifying variable rate"), all stated interest is treated as qualified stated interest. The accrual of any original issue discount is determined by assuming the Deposit bears interest at a fixed interest rate equal to the issue date value of the qualified floating rate or qualified inverse floating rate or, in the case of any other objective rate, a fixed internal rate that is equal to the reasonably expected yield for the Deposit. The qualified stated interest allocable to an accrual period is increased (or decreased) if the interest actually paid during an accrual period exceeds (or is less than) the interest assumed to be paid during the accrual period.

If the Deposit bears interest at a qualifying variable rate other than a single qualified floating rate or objective rate, the amount and accrual of original issue discount generally are determined by

- (i) determining a fixed rate substitute for each variable rate as described in the preceding paragraph,
- (ii) determining the amount of qualified stated interest and original issue discount by assuming the

Note bears interest at such substitute fixed rates and (iii) making appropriate adjustments to the qualified stated interest and original issue discount so determined for actual interest rates under the Deposit. However, if the qualifying variable rate includes a fixed rate, the Deposit is treated for purposes of applying clause (i) of the preceding sentence as if it provided for an assumed qualified floating rate (or qualified inverse floating rate if the actual variable rate is such) that would cause the Note to have approximately the same fair market value, and the rate is used in lieu of the fixed rate.

Market Discount and Acquisition Premium. If a U.S. Holder is treated as purchasing a Deposit that is not a contingent payment debt instrument or a short-term obligation for an amount that is less than its stated redemption price at maturity (as described above) or, in the case of a Deposit having original issue discount, less than its revised issue price (which is the sum of the issue price of the Deposit and the aggregate amount of the original issue discount previously includible in the gross income of any holder (without regard to any acquisition premium)), the amount of the difference generally will be treated as market discount for federal income tax purposes. (It is possible that a U.S. Holder may purchase a Note at original issuance for an amount that is different than the issue price of the Deposit.) The amount of any market discount generally will be treated as *de minimis* and disregarded if it is less than the product of $\frac{1}{4}$ of 1 percent of the stated redemption price at maturity of the Deposit and the number of complete years to maturity (or weighted average maturity in the case of a Deposit paying any amount other than qualified stated interest prior to maturity).

Under the market discount rules, a U.S. Holder is required to treat any principal payment on, or any gain on the sale, exchange, retirement or other disposition of, a Deposit as ordinary income to the extent of any accrued market discount that has not previously been included in income. If the Deposit is disposed of in a nontaxable transaction (other than certain specified nonrecognition transactions), accrued market discount will be includible as ordinary income to the U.S. Holder as if the U.S. Holder had sold the Deposit at its then fair market value. In addition, the U.S. Holder may be required to defer, until the maturity of the Note or its earlier disposition in a taxable transaction, the deduction of all or a portion of the interest expense on any indebtedness incurred or continued to purchase or carry the Note.

Market discount on a Deposit is accrued on a straight-line basis, unless the U.S. Holder elects to accrue it under the constant yield method. A U.S. Holder may elect to include market discount in income currently as it accrues (either ratably or under the constant yield method), in which case the rule described above regarding deferral of interest deductions will not apply. The election to include market discount currently applies to all market discount obligations acquired during or after the first taxable year to which the election applies and may not be revoked without the consent of the IRS. If an election is made to include market discount in income currently, the basis of the Deposit in the hands of the U.S. Holder will be increased by the market discount thereon as it is included in income.

A U.S. Holder that is treated as purchasing a Deposit having original issue discount, other than a contingent payment debt instrument or short-term obligation, for an amount exceeding its "adjusted issue price" (which is described above under "Original Issue Discount") will be treated as having purchased the Deposit with acquisition premium. The amount of original issue discount that the U.S. Holder must include in gross income with respect to such Deposit will be reduced in the proportion that the excess bears to the original issue discount remaining to be accrued as of the Deposit's acquisition and ending on the stated maturity date.

Foreign Currency Notes.

The pricing supplement will describe the U.S. federal income tax consequences to U.S. Holders of the purchase, beneficial ownership, and disposition of a Note denominated in a foreign currency or a Note the payments on which are determined by reference to a foreign currency.

Sale or Exchange of the Notes.

Upon a sale, redemption, or other taxable disposition of a Note for cash, a U.S. Holder should allocate the cash received between the Deposit and the Put Option on the basis of their respective values on the date of sale. The U.S. Holder should generally recognize gain or loss with respect to the Deposit in an amount equal to the difference between the amount of the sales proceeds allocable to the Deposit (less accrued and unpaid "qualified stated interest," which will be treated as ordinary interest income) and the U.S. Holder's adjusted tax basis in the Deposit (which generally will equal the initial purchase price of your Note increased by any accrued original issue discount or acquisition discount previously included in income on the Deposit and decreased by the amount of any payment (other than an interest payment that is treated as qualified stated interest) received on the Deposit). Such gain or loss should be capital gain or loss and should be long-term capital gain or loss if a U.S. Holder is treated as having held the Deposit for more than one year at the time of such disposition. However, gain recognized on a Deposit that is a short-term obligation by a U.S. Holder that is not required, and does not elect, to include original issue discount or acquisition discount in income currently will be treated as ordinary income to the extent of the untaxed portion of the accrued original issue discount (determined on a ratable basis, unless the U.S. Holder elects to use a constant yield basis), and gain recognized on a Deposit with accrued market discount will be treated as ordinary income to the extent of the accrued market discount that has not previously been included in income. If the Put Option has a positive value on the date of a sale of a Note, the U.S. Holder should recognize short-term capital gain equal to the portion of the sale proceeds allocable to the Put Option plus any previously received Put Premium. If the Put Option has a negative value on the date of sale, the U.S. Holder should be treated as having paid the buyer an amount equal to the negative value in order to assume the U.S. Holder's rights and obligations under the Put Option. In such a case, the U.S. Holder should recognize a short-term capital gain or loss in an amount equal to the difference between the total Put Premium previously received and the amount of the payment deemed made by the U.S. Holder with respect to the assumption of the Put Option. The amount of the deemed payment will be added to the sales price allocated to the Deposit in determining the gain or loss in respect of the Deposit. The deductibility of capital losses by U.S. Holders is subject to limitations.

Alternative Characterizations and Treatments

Although we intend to treat each Note as a Deposit and a Put Option as described above, there are no statutory provisions, regulations, published rulings or judicial decisions addressing the characterization of securities with terms that are substantially the same as those of the Notes, and therefore the Notes could be subject to some other characterization or treatment for U.S. federal income tax purposes. For example, the Notes could be treated as "contingent payment debt instruments" for U.S. federal income tax purposes. In this case, in general, U.S. Holders should accrue original issue discount on the Notes based on a yield (the comparable yield) at which we would issue a fixed rate noncontingent debt instrument with terms and conditions similar to those of the Notes, and a projected payment schedule would be constructed that would reflect a projected payment for each payment on the Note and would produce the comparable yield. If the actual value of a payment were to exceed the amount projected on the schedule, the U.S. Holder should include in income additional interest income. In contrast, if the actual value of a payment were less than the amount projected on the schedule, the U.S. Holder should first offset any original issue discount accrued on the Note in the taxable year by the amount of the shortfall, and thereafter should be entitled to an ordinary deduction to the extent of previously accrued original issue discount on the Note. Shortfalls remaining upon retirement or at the time of a sale or other disposition of the Note should be treated as reducing the amount realized. In addition, any gain realized upon the sale or exchange of the Notes would be treated as ordinary income.

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Other characterizations and treatments of the Notes are possible. Prospective investors in the Notes should consult their tax advisors as to the tax consequences to them of purchasing Notes, including any alternative characterizations and treatments.

Tax Treatment of Non-U.S. Holders

A Non-U.S. Holder that is not subject to U.S. federal income tax as a result of any direct or indirect connection to the United States other than its ownership of a Note should not be subject to U.S. federal income or withholding tax in respect of the Notes so long as (1) the Non-U.S. Holder provides an appropriate statement, signed under penalties of perjury, identifying the Non-U.S. Holder and stating, among other things, that the Non-U.S. Holder is not a United States person, as defined for federal income tax purposes, (2) the Non-U.S. Holder is not a bank that has purchased the Notes in the ordinary course of its trade or business of making loans, as described in section 881(c)(3)(A) of the Code, (3) the Non-U.S. Holder is not a "10-percent shareholder" within the meaning of section 871(h)(3)(B) of the Code or a "related controlled foreign corporation" within the meaning of section 881(c)(3)(C) of the Code with respect to us, and (4) the Reference Assets are actively traded within the meaning of section 871(h)(4)(C)(v) of the Code. Unless otherwise indicated in the pricing supplement, we expect the Reference Assets to be treated as actively traded within the meaning of section 871(h)(4)(C)(v) of the Code.

If any of these conditions are not met, a 30% withholding tax may apply to payments of qualified stated interest, accrued acquisition discount, and accrued original issue discount on the Notes, unless an income tax treaty reduces or eliminates such tax or the income is effectively connected with the conduct of a trade or business within the United States by such Non-U.S. Holder. In the latter case, such Non-U.S. Holder should be subject to U.S. federal income tax with respect to all income from the Notes at regular rates applicable to U.S. taxpayers, and, for a foreign corporation, possibly branch profits tax, unless an applicable treaty reduces or eliminates such tax.

In general, the gain realized on the sale, exchange or retirement of the Notes by a Non-U.S. Holder should not be subject to U.S. federal income tax with respect to the Notes. However, if the amount realized upon the sale, exchange or settlement of a Note is effectively connected with a trade or business conducted by the Non-U.S. Holder in the United States, the Non-U.S. Holder will generally be subject to U.S. federal income tax on any income or gain in respect of the Note at the regular rates applicable to U.S. taxpayers, and, for a foreign corporation, possibly branch profits tax, unless an applicable treaty reduces or eliminates such tax. Additionally, if the Non-U.S. Holder is an individual that is present in the United States for 183 days or more in the year the gain is recognized and certain other conditions are satisfied, the Non-U.S. Holder will generally be subject to tax at a rate of 30% on the amount by which the gains derived from the sale, exchange or settlement that are from U.S. sources exceed capital losses allocable to U.S. sources.

Non-U.S. Holders should consult the offering documents for the Reference Assets for the U.S. federal income tax treatment of acquiring, owning and selling the Reference Assets.

U.S. Federal Estate Tax Treatment of Non-U.S. Holders

The Notes may be subject to U.S. federal estate tax if an individual Non-U.S. Holder holds the Notes at the time of his or her death. Individual Non-U.S. Holders should consult their tax advisors regarding the U.S. federal estate tax consequences of holding the Notes at death.

Non-U.S. Holders should consult the offering documents for the Reference Assets for the U.S. federal estate tax treatment of acquiring, owning and selling the Reference Assets.

Information Reporting and Backup Withholding

Distributions made on the Notes and proceeds from the sale of Notes to or through certain brokers may be subject to a "backup" withholding tax on "reportable payments" unless, in general, the Noteholder complies with certain procedures or is an exempt recipient. Any amounts so withheld from distributions on the Notes generally will be refunded by the IRS or allowed as a credit against the Noteholder's U.S. federal income tax, provided the Noteholder makes a timely filing of an appropriate tax return or refund claim.

Reports will be made to the IRS and to holders that are not excepted from the reporting requirements.

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SUPPLEMENTAL PLAN OF DISTRIBUTION

We are offering the Notes on a continuing basis through the Agent. The Agent may sell Notes to dealers at a concession not in excess of the discount it received from us. We also may sell the Notes:

- (a) directly to purchasers on our own behalf; or
- (b) through the Agent as principal, either at a discount from their principal amount to be agreed on at the time of sale or at 100% of their principal amount, for resale to one or more investors and other purchasers at different prices to be determined by the Agent at the time of resale, which may be greater or lesser than the purchase price for those Notes paid by the Agent.

The Agent also may solicit offers to purchase the Notes as our agent. We will have the sole right to accept offers to purchase Notes and may reject any proposed purchase of the Notes in whole or part. The Agent will have the right, in its reasonably exercised discretion, to reject any offer to purchase the Notes it receives in whole or in part. We will pay each Agent, in connection with sales of the Notes resulting from a solicitation that the Agent made or an offer to purchase that the Agent received, a commission, in the form of a discount or otherwise, that will be specified in the applicable pricing supplement, not to exceed 8.00%. We and the Agent expect to enter into a distribution agreement with respect to the Notes. Pursuant to the terms of the distribution agreement, the Agent will agree to use its reasonable best efforts to solicit orders to purchase Notes. We also may appoint additional Agents, to solicit offers to purchase the Notes, who will enter into the above distribution agreement. Any other Agents will be named in the applicable pricing supplement and any solicitation and sale of Notes through those Agents will be on the same terms and conditions to which the Agent has agreed. The other Agents or dealers through which we or the Agent may sell Notes may be our affiliates or customers and may engage in transactions with and perform services for us in the ordinary course of business. We also may pay fees and other amounts to an Agent or an affiliate of an Agent in connection with certain transactions that we enter into in connection with certain issuances of the Notes, which might exceed the Agent's discount.

With respect to each issuance of Notes, we expect to deliver the Notes against payment in New York, New York on the Original Issue Date. Unless the applicable pricing supplement indicates otherwise, payment of the purchase price shall be made in funds that are immediately available in New York City.

The Agents may be deemed to be "underwriters" within the meaning of the Securities. We have agreed to indemnify the Agents against or to make contributions relating to certain civil liabilities, including liabilities under the Securities Act. We have agreed to reimburse the Agents for certain expenses.

Following the initial distribution of Notes, the Agent or other affiliates of The Bear Stearns Companies Inc. may use this prospectus supplement in connection with offers and sales associated with market-making transactions in the Notes. Each Agent may act as principal or Agent in the market-making transactions. The offers and sales will be made at prices that relate to prevailing prices at the time.

Any Agents offering Notes will not confirm sales to any accounts over which they exercise discretionary authority without the prior approval of the customer.

Because Bear, Stearns & Co. Inc. is our wholly owned subsidiary, each distribution of the Notes will conform to the requirements set forth in Rule 2720 of the NASD Conduct Rules. The maximum commission or discount received by any NASD member or independent broker-dealer participating in a distribution of the Notes will not be greater than eight percent of the aggregate principal amount of the offering of the Notes in which such NASD member or independent broker-dealer participates.

VALIDITY OF THE NOTES

If stated in the applicable pricing supplement, the validity of the Notes will be passed on for us by Cadwalader, Wickersham & Taft LLP, New York, New York.

DEFINITIONS

Set forth below are definitions of some of the terms used in this prospectus supplement and in the applicable pricing supplement. If the terms described in the applicable pricing supplement are inconsistent with those described below or in the accompanying prospectus, the terms described in the applicable pricing supplement will supersede.

The "Agent" for each underwritten offering may be Bear Stearns, BSIL or others as disclosed in the applicable pricing supplement.

"AMEX" means the American Stock Exchange LLC.

"Bear Stearns" means our affiliate, Bear, Stearns & Co. Inc.

"BSIL" means our affiliate, Bear, Stearns International Limited.

"Business Day" means any day that (a) in the U.S., is not a Saturday or Sunday, (b) in New York, New York, is not a day on which banking institutions generally are authorized or required by law or executive order to close, and (c) if the interest rate formula basis is LIBOR, is also a London Banking Day.

"Calculation Agent" means Bear Stearns. We may change the Calculation Agent after the Original Issue Date without notice.

"Calculation Date" will be a date specified in the applicable pricing supplement. If that date is not a Business Day, or if the Calculation Agent determines that a Market Disruption Event has occurred or is continuing on that day, the Calculation Date will be the first following Business Day on which the Calculation Agent determines that a Market Disruption Event has not occurred and is not continuing. In no event, however, will the final Calculation Date be a date that is less than two Business Days immediately preceding the Maturity Date. In that case, the second Business Day immediately preceding the Maturity Date will be deemed to be the final Calculation Date, notwithstanding the Market Disruption Event, and the Calculation Agent will make a good faith estimate of the Closing Price of the Reference Asset on that second Business Day preceding the Maturity Date in accordance with the formula for and method of calculating the Reference Asset in effect prior to the Market Disruption Event using the price of the Reference Asset on the relevant exchange or market (or, if trading in any such Reference Asset has been materially suspended or materially limited, the Calculation Agent's good faith estimate of the Closing Price of the Reference Asset that would have prevailed but for such suspension or limitation) as of that second Business Day preceding the Maturity Date. For clarity, in no event will the Calculation Date be one Business Day prior to Maturity Date.

"Closing Price" of the Reference Asset on any Trading Day means:

if such Reference Asset is listed or admitted to trading on a national securities exchange, the last reported sale price, regular way, of the principal trading session on such day on the principal United States securities exchange registered under the Exchange Act, on which such Reference Asset is listed or admitted to trading,

if such Reference Asset is a security traded on the Nasdaq National Market (and provided that the Nasdaq National Market is not then a national securities exchange), the Nasdaq official Closing Price published by The Nasdaq Stock Market, Inc. on

such day, or

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if such Reference Asset is neither listed or admitted to trading on any national securities exchange nor a security of the Nasdaq National Market but is included in the OTC Bulletin Board Service (the "OTC Bulletin Board") operated by the NASD, the last reported sale price of the principal trading session on the OTC Bulletin Board on such day.

If such Reference Asset is listed or admitted to trading on any national securities exchange or is a security traded on the Nasdaq National Market but the last reported sale price or Nasdaq official Closing Price, as applicable, is not available, then the Closing Price for such Reference Asset on any Trading Day will mean the last reported sale price of the principal trading session on the over-the-counter market as reported on the Nasdaq National Market or the OTC Bulletin Board on such day. If, because of a Market Disruption Event or otherwise, the last reported sale price or Nasdaq official Closing Price, as applicable, for such Reference Asset is not available pursuant to either of the two preceding sentences, then the Closing Price for any Trading Day will be the mean, as determined by the Calculation Agent, of the bid prices for such Reference Asset for such Trading Day obtained from as many recognized dealers in such security, but not exceeding three, as will make such bid prices available to the Calculation Agent. Bids of any of our affiliates may be included in the calculation of such mean, but only to the extent that any such bid is the highest of the bids obtained. The term "security of the Nasdaq National Market" will include a security included in any successor to such system, and the term "OTC Bulletin Board Service" will include any successor service thereto.

"Code" means the Internal Revenue Code of 1986, as amended.

"Consumer Price Index" means the non-seasonally adjusted U.S. City Average All Items Consumer Price Index for All Urban Consumers ("CPI"), published monthly by the Bureau of Labor Statistics of the U.S. Department of Labor ("BLS") and reported on Bloomberg CPURNSA or any successor service. The CPI for a particular month is published during the following month. The CPI is a measure of the average change in consumer prices over time for a fixed market basket of goods and services, including food, clothing, shelter, fuels, transportation, charges for doctors and dentists services, and drugs. In calculating the index, price changes for the various items are averaged together with weights that represent their importance in the spending of urban households in the United States. The contents of the market basket of goods and services and the weights assigned to the various items are updated periodically by the BLS to take into account changes in consumer expenditure patterns. The CPI is expressed in relative terms in relation to a time base reference period for which the level is set at 100.0. The time base reference period for the Notes is the 1982-1984 average.

If the CPI is not reported on Bloomberg CPURNSA for a particular month by 3:00 PM on an Interest Reset Date, but has otherwise been published by the BLS, the Calculation Agent will determine the CPI as published by the BLS for such month using such other source as it deems appropriate.

If the CPI is rebased to a different year or period, the base reference period for the Notes will continue to be the 1982-1984 reference period as long as the 1982-1984 CPI continues to be published.

If, while the Notes are outstanding, the CPI is discontinued or substantially altered, as determined in the sole discretion of the Calculation Agent, the applicable substitute index for the Notes will be that chosen by the Secretary of the Treasury for the Department of Treasury's Inflation-Linked Treasuries as described at 62 Federal Register 846-874 (January 6, 1997). If no such securities are outstanding, the Calculation Agent will determine a substitute index for the Notes in accordance with general market practice at the time.

"Contingent Protection Percentage" or "Conversion Percentage" will be determined on the Pricing Date and means the percentage specified in the applicable pricing supplement. The term used will be specified in the applicable pricing supplement.

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"Contingent Protection Level" or "Conversion Price" will be determined on the Pricing Date and means the product of the Initial Level and the Contingent Protection Percentage.

"Event of Default" has the meaning as defined in the Indenture.

"Exchange Act" means the Securities Exchange Act of 1934, as amended.

"Exchange Ratio" will be calculated by the Calculation Agent and will equal the principal amount of your Notes divided by the Initial Level (rounded down to the nearest whole number with fractional shares to be paid in cash), subject to adjustment for certain events relating to the Reference Asset.

"Federal Funds Rate" means either the Federal Funds (Effective) Rate or the Federal Funds (Open) Rate.

Unless otherwise specified in the applicable pricing supplement, the "Federal Funds (Effective) Rate" means, with respect to any Interest Determination Date, the rate on that day for Federal Funds as published in H.15(519) under the heading "Federal funds (effective)" on Telerate page 120 or any successor service or page or, if not so published on the Calculation Date relating to that Interest Determination Date, the Federal Funds (Effective) Rate will be the rate on that Interest Determination Date that is published in H.15 Daily Update or any other recognized electronic source used for displaying that rate under the heading "Federal Funds/Effective Rate."

Unless otherwise specified in the applicable pricing supplement, the "Federal Funds (Open) Rate" means, with respect to any Interest Determination Date, the rate on that day for Federal Funds as reported on Telerate page 5 under the heading "Federal Funds/Open."

If (1) the applicable Federal Funds (Effective) Rate described above or (2) the Federal Funds (Open) Rate described above is not published by 3:00 p.m. on the relevant Calculation Date, then the Federal Funds (Effective) Rate and the Federal Funds (Open) Rate, as applicable, will be calculated by the Calculation Agent as the arithmetic mean of the rates for the last transaction in overnight Federal Funds arranged by three leading brokers of Federal Funds transactions in New York City selected by the Calculation Agent as of 11:00 a.m., on that Interest Determination Date.

If the brokers that are selected by the Calculation Agent are not quoting, the interest rate in effect for the applicable period will remain the interest rate then in effect on such Interest Determination Date.

"Final Level" will be calculated by the Calculation Agent and will equal the Closing Price of the Reference Asset on the Calculation Date.

"Fractional Share Cash Amount" is an amount in cash per Note equal to the Final Level multiplied by the difference between (x) \$1,000 divided by the Initial Level (rounded to the nearest three decimal places), and (y) the Exchange Ratio.

"Initial Level" means the initial price or level of the Reference Asset on the Pricing Date, as detailed in the applicable pricing supplement.

"Interest Determination Date" is the day the Calculation Agent will refer to when determining the new interest rate and will be the date specified in the applicable pricing supplement, provided that if such date is not a Business Day or if a Market Disruption Event occurs on such date, the Interest Determination Date will be the next succeeding Business Day on which no Market Disruption Event occurs.

"Interest Payment Date" will be the date specified in the applicable pricing supplement, provided that if such date is not a Business Day, the related payment of interest will be made on the next succeeding Business Day and the interest accruing for the period from and after that Interest Payment Date to such next Business Day, if any, shall be paid on the next succeeding Interest Payment Date, if

any. However, for Notes which pay LIBOR, if the next Business Day is in the next calendar month, principal, if any, or interest will be paid on the immediately preceding Business Day, provided that any such Business Day is also a London Banking Day. If the Interest Payment Date is also a day on which principal is due, the interest payable will include interest accrued to, but excluding, the stated Maturity Date.

"Interest Reset Date" will be the date specified in the applicable pricing supplement, provided that if any Interest Reset Date is not a Business Day, then the Interest Reset Date will be postponed to the next succeeding Business Day. However, in the case of a Note which pays LIBOR, if the next succeeding Business Day is in the next calendar month, the Interest Reset Date will be the immediately preceding Business Day.

"Intraday Trading Price" means, for one share of the Reference Asset (or one unit of any other security for which an Intraday Trading Price must be determined) at any time during any trading day (including at the close) means:

if the Reference Asset (or any such other security) is listed or admitted to trading on a national securities exchange, the most recently reported sale price, regular way, at such time during the principal trading session on such day on the principal United States securities exchange registered under the Exchange Act on which the underlying stock (or any such other security) of the Reference Asset is listed or admitted to trading,

if the underlying stock (or any such other security) of the Reference Asset is a security of the Nasdaq National Market (and provided that the Nasdaq National Market is not then a national securities exchange), the most recently reported sale price at such time quoted by The Nasdaq Stock Market, Inc. on such day, or

if the underlying stock (or any such other security) of the Reference Asset is neither listed or admitted to trading on any national securities exchange nor a security of the Nasdaq National Market but is included in the OTC Bulletin Board, the most recently reported sale price at such time during the principal trading session on the OTC Bulletin Board on such day.

"LIBOR" means the London Interbank Offered Rate, and will be determined by the Calculation Agent as follows, unless otherwise specified in the applicable pricing supplement:

With respect to any Interest Determination Date, either:

(a)

"LIBOR Reuters," which is the arithmetic mean, as determined by the Calculation Agent, of the offered rates for deposits in U.S. dollars for the maturity specified in the applicable pricing supplement, beginning on the second London Banking Day after that date, which appear on the Reuters Screen LIBO Page as of 11:00 a.m., London time, on that date, if at least two such offered rates appear on the Reuters Screen LIBO Page; or

(b)

"LIBOR Telerate," which is the offered rate for deposits in U.S. dollars having the specified maturity, beginning on the second London Banking Day after that date, which appears on the Telerate Page 3750 as of 11:00 a.m., London time, on that date.

If neither the Reuters Screen LIBO Page nor Telerate Page 3750 is specified in the applicable pricing supplement, LIBOR will be determined as if Telerate Page 3750 had been specified.

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In the case where (a) above applies, if fewer than two offered rates appear on the Reuters Screen LIBO Page, or, in the case where (b) above applies, if no rate appears on the Telerate Page 3750, LIBOR will be determined based on the rates at approximately 11:00 a.m., London time, on that LIBOR Interest Determination Date at which deposits in U.S. dollars having the specified maturity are offered by four major banks in the London interbank market selected by the Calculation Agent to prime banks in the London interbank market beginning on the second London Banking Day after that

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date and in a principal amount of not less than U.S. \$1,000,000 that is representative of a single transaction in such market at such time (a "representative amount"). The Calculation Agent will request the principal London office of each such bank to provide a quotation of its rate. If at least two such quotations are provided, LIBOR for that date will be the arithmetic mean of such quotations.

If fewer than two quotations are provided, LIBOR for that date will be the arithmetic mean of the rates quoted at approximately 11:00 a.m. on such date by three major banks in New York City selected by the Calculation Agent for loans in U.S. dollars to leading European banks having the specified maturity beginning on the second London Banking Day after that date and in a principal amount of not less than a representative amount.

Finally, if the three banks are not quoting as mentioned above, LIBOR will remain LIBOR then in effect on such Interest Determination Date.

"London Banking Day" means any day on which dealings or deposits in U.S. dollars are transacted in the London interbank market.

"Market Disruption Event" means any of the following events, as determined by the Calculation Agent, in its sole discretion:

the occurrence or existence of a suspension, absence or material limitation of trading in the instrument or instruments comprising the Reference Asset in the primary market for such instrument or instruments for more than two hours of trading or during the half hour period preceding the close of trading;

a breakdown or failure in the price and trade reporting systems of any primary market, Related Exchange or market as a result of which the reported trading prices for the Reference Asset during the last one hour preceding the close of the principal trading session on such relevant exchange or market are materially inaccurate;

the occurrence or existence of a suspension, absence or material limitation of trading in option or futures contracts or exchange traded funds related to the instrument or instruments comprising Reference Asset, in each case, on any major exchange or market for more than two hours of trading, or during the half hour period preceding the close of the principal trading session on such market, whether by reason of movements in price otherwise exceeding levels permitted by the relevant exchange or market or otherwise;

the occurrence or existence of a suspension, absence, limitation, cancellation or repudiation of trading for more than two hours of trading, or during the half hour period preceding the close of trading on the Related Exchange or market in the Reference Asset; or

in any of these events, the Calculation Agent determines in its sole discretion that the event materially interferes with our ability or the ability of any of our affiliates to unwind all or a material portion of a hedge with respect to the Notes that we or our affiliates have effected or may effect.

For purposes of this definition:

- (a) a limitation on the hours in a Trading Day and/or number of days of trading will not constitute a Market Disruption Event if it results from an announced change in the regular business hours of the relevant exchange or market,

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(b) a decision to permanently discontinue trading in any option contracts relating to the instrument or instruments comprising the Reference Asset will not constitute a Market Disruption Event, and

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(c) for purposes of clause (a) above, any limitations on trading during significant market fluctuations, under NYSE Rule 80B, NASD Rule 4120 or any analogous rule or regulation enacted or promulgated by the NYSE, NASD or any other self-regulatory organization or the SEC of similar scope as determined by the Calculation Agent, will be considered "material."

A suspension or limitation of trading in option contracts related to the Reference Asset, if available, in the primary market for those contracts, by reason of any of (i) a price change exceeding limits set by that market, (ii) an imbalance of orders relating to those contracts, or (iii) a disparity in bid and ask quotes relating to those contracts, will constitute a suspension or material limitation of trading in option contracts related to the Reference Asset in the primary market for those contracts.

Based on the information currently available to us, on each of September 11, 12, 13 and 14, 2001, the NYSE and The Nasdaq Stock Market suspended all trading for the entire day, and on October 27, 1997, the NYSE and The Nasdaq Stock Market ("Nasdaq") suspended all trading during the half hour period preceding the close of trading. If the NYSE or Nasdaq were the primary market of the Reference Asset, such suspension would constitute a Market Disruption Event.

"Maturity Date" will be detailed in the applicable pricing supplement and may be accelerated upon an Event of Default. If the stated Maturity Date is not a Business Day, the Maturity Date will be the next following Business Day.

"NASD" means the National Association of Securities Dealers, Inc.

"NYSE" means the New York Stock Exchange, Inc.

"Note" or "Notes" means notes with specific terms described in the applicable pricing supplement with a principal amount of \$1,000.

"Original Issue Date" means the date the Notes will be ready for delivery.

"Pricing Date" means the day we price the Notes for initial sale to the public.

"Prior Exchange Ratio" is the Exchange Ratio prior to any adjustment as detailed herein.

"Record Date" for each Interest Payment Date, including any Interest Payment Date scheduled to occur on the Maturity Date, means the date 15 calendar days prior to such Interest Payment Date, whether or not that date is a Business Day.

"Reference Asset" may be one or more securities, commodities, foreign currencies, interest rate or any other financial, economic, or other measures or instruments, including the occurrence or nonoccurrence of any event or circumstance; or indices or baskets of any of these items, as detailed in the applicable pricing supplement.

"Related Exchange" means, with respect to any instrument or instruments comprising the Reference Asset, each exchange or quotation system on which futures or options contracts relating to such instrument or instruments comprising the Reference Asset are traded, any successor to such exchange or quotation system or any substitute exchange or quotation system to which trading in the futures or options contracts relating to such instrument or instruments comprising the Reference Asset has temporarily relocated (provided that the Calculation Agent has determined that the liquidity of the futures or options contracts on such instrument or instruments comprising the Reference Asset on such temporary substitute exchange or quotation system is comparable to that on the original Related Exchange).

"SEC" means the Securities and Exchange Commission.

"Securities Act" means the Securities Act of 1933, as amended.

"Settlement Date" means the date the Notes will be ready for delivery.

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"Sponsor" means the applicable person or organization responsible for calculating, publishing or maintaining the Reference Asset.

"Trading Day" means a day, as determined by the Calculation Agent, on which trading is generally conducted on the principal trading market for the Reference Asset.

"Trading Level" means the Intraday Trading Price of the Reference Asset on each Business Day, beginning on the Pricing Date to and including the Calculation Date.

"Treasury Rate" means, with respect to any Interest Determination Date, the rate for the most recent auction of Treasury bills, direct obligations of the United States, having the Index Maturity specified in the applicable pricing supplement as published under the column designated "Invest Rate" on Telerate page 56 captioned "US Treasury 3MO T-Bill Auction Results" or Telerate page 57 captioned "US Treasury 6MO T-Bill Auction Results."

If the Treasury Rate cannot be set as described above on the Calculation Date pertaining to such Interest Determination Date, the following procedures will apply, as appropriate:

(a) The rate will be the auction average rate (expressed as a bond equivalent on the basis of a year of 365 or 366 days, as applicable, and applied on a daily basis) as otherwise announced by the United States Department of the Treasury.

(b) If the results of the auction of Treasury bills having the specified Index Maturity are not published in H.15(519) by 3:00 p.m. on the Calculation Date, or if no such auction is held in a particular week, then the Treasury Rate will be calculated by the Calculation Agent and will be a yield to maturity (expressed as a bond equivalent on the basis of a year of 365 or 366 days, as applicable, and applied on a daily basis) of the arithmetic mean of the secondary market bid rates as of approximately 3:30 p.m. on the Interest Determination Date, of three leading primary US government securities dealers selected by the Calculation Agent, for the issue of Treasury bills with a remaining maturity closest to the specified Index Maturity.

(c) Finally, if the dealers are not quoting as mentioned above, the Treasury Rate will remain the Treasury Rate then in effect on such Interest Determination Date.

"Trustee" will be JPMorgan Chase Bank, N.A. (formerly known as JPMorgan Chase Bank).

"We," "us" and "our" refer only to The Bear Stearns Companies Inc., excluding its consolidated subsidiaries.

You should only rely on the information contained in this prospectus supplement and prospectus. We have not authorized anyone to provide you with information or to make any representation to you that is not contained in this prospectus supplement and prospectus. If anyone provides you with different or inconsistent information, you should not rely on it. This prospectus supplement and prospectus are not an offer to sell these securities, and these documents are not soliciting an offer to buy these securities, in any jurisdiction where the offer or sale is not permitted. You should not under any circumstances assume that the information in this prospectus supplement and prospectus is correct on any date after their respective dates.

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**THE BEAR STEARNS
COMPANIES INC.**

Medium-Term Notes, Series B

**PROSPECTUS SUPPLEMENT
REVERSE CONVERTIBLE
ALL ASSET CLASSES**

Bear, Stearns & Co. Inc.

August 16, 2006

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